

# BUDGET LETTER

<b>SUBJECT:</b> LATE PAYMENT PENALTY INTEREST RATES	<b>NUMBER:</b> 04-16
<b>REFERENCES:</b> GOVERNMENT CODE SECTIONS 926.19 AND 927 ET SEQ.; STATE ADMINISTRATIVE MANUAL SECTIONS 8474 ET SEQ.	<b>DATE ISSUED:</b> July 23, 2004
	<b>SUPERSEDES:</b> BL 03-24

TO: Departmental Budget Officers  
Departmental Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) advises State departments of the current penalty rates and the penalty interest factors per day for late payment penalties incurred on or after July 1, 2004. The Government Code (GC) requires different penalty rates for late payments of:

- A. Invoices from small businesses or nonprofit organizations for goods/services.
- B. Invoices from other businesses for goods/services.
- C. Other amounts due.

The California Prompt Payment Act (the act), GC Section 927 et seq., requires State departments to automatically calculate and pay the appropriate late payment penalties if they fail to pay properly submitted, undisputed invoices on the date required by the contract. The act applies to invoices for goods and/or services acquired by State departments. *Late payment penalties subject to this section accrue on amounts due during Budget impasse, with the exception of amounts due to nonprofit public benefit corporations.*

The GC Section 926.19 requires State departments to pay interest on other types of undisputed payments such as refunds, unless otherwise provided for in statute. Interest is due 31 days after the department notifies the person or the person notifies the department of the payment. *Late payment penalties subject to this section do not accrue during Budget impasse.*

The fiscal year 2004-05 rates are:

	<b>Penalty Interest Rate Per Annum</b>	<b>Penalty Interest Factor Per Day</b>
<b>GC Section 927 et seq.</b>		
A. Small businesses and nonprofit organizations (This rate <i>does not</i> change annually, GC 927.6a.)	91.25%	0.0025
B. Other businesses (This rate changes annually, GC 927.6b.)	2.532%	0.0000694
<b>GC Section 926.19</b>		
A. Undisputed payments (e.g., refunds) (This rate changes annually.)	0.532%	0.0000146

To arrive at the daily penalty, multiply the amount due by the applicable penalty interest factor per day, as shown. The daily penalty is then multiplied by the number of days the payment is late to calculate the total penalty amount.

For additional information, please refer to the State Administrative Manual Sections 8474 et seq. and the Department of Finance, Fiscal Systems and Consulting Unit (FSCU) website:

[http://www.dof.ca.gov/FISA/FSCU/fscu\\_FAQs.htm](http://www.dof.ca.gov/FISA/FSCU/fscu_FAQs.htm).

If you have questions regarding this BL, please contact the FSCU Hotline at (916) 324-0385, CALNET 454-0385, or e-mail [FSCUHotline@dof.ca.gov](mailto:FSCUHotline@dof.ca.gov).

/s/ Veronica Chung-Ng

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